

MANAGEMENT/ADMINISTRATION - PAGE 8

GENERAL

Comments should clearly support the component rating assigned management, as well as any Examination Conclusions and Comments (ECC) page comments relating to management. The page heading lists various factors which should be considered in determining the component rating. While these factors may be used as a guide, comments should not necessarily address each factor. Conversely, listed factors are not all-inclusive, and all other relevant issues should be considered. Material conclusions and comments pertaining to management should be detailed here and summarized on the ECC page. Supplemental management pages should be included as needed to support core page comments.

In completing this schedule, keep in mind the philosophy of anticipatory supervision. Through a comprehensive analysis of management/administration, examiners can identify institutions which have a high tolerance for, or a potentially high tolerance for, risk-taking. As such, attempt to differentiate between managements which have a predilection for risk versus those which are averse to risk. In addition to identifying the strengths and weaknesses of an institution's policies and procedures, assess whether those policies and procedures are liberal or conservative in theory and application.

RELATIONSHIP TO ADMINISTRATION, SUPERVISION, AND CONTROL PAGE

Use this schedule in conjunction with the Administration, Supervision, and Control page. Summarize here any important matters or criticisms included on that page. However, attempt to avoid duplication of specific matters covered on the Administration, Supervision, and Control page.

CONFIDENTIAL MANAGEMENT COMMENTS

Generally, include all comments with respect to management here. Place confidential comments regarding management on Confidential -- Supervisory Section page.

MANAGEMENT CHANGES

Detail significant changes in management composition and organization/structure.

Reference: Management Supervision, Administration, and Control Section of the Manual

ADMINISTRATION, SUPERVISION, AND CONTROL - PAGE 8

GENERAL

This schedule should provide detailed support for, and be consistent with, the comments on the Management/Administration page, as well as the component rating assigned to management.

The twelve items provide a framework for a comprehensive analysis of the institution's administration, supervision, and control. Note that the items require examiners to assess and describe. The items are intended to assist the examiner in arriving at a forward-looking, pro-active assessment of an institution's policies and practices. While identification and correction of existing weaknesses and deficiencies in administration, supervision, and control remain an important goal of the schedule, do not approach the items solely from an "exception only" basis.

Interpret items broadly so they encompass all administration, supervision, and control-related matters. The relevance of each item to individual institutions will vary due to the differences in size, structure, and complexity of institutions. However, all items (with the exception of Item #9) apply, to some degree, to every institution. When satisfactory written policies have not been adopted, focus analysis on the adequacy of informal policies and actual practices.

Violations of laws and regulations, as well as contraventions of FDIC Statements of Policy, may often be most effectively detailed here with a brief synopsis placed on the Violations of Laws and Regulations page.

The use of subheadings is encouraged to present comments in a more readable and organized fashion. For example, examiners could breakdown Item #3 comments under the subheadings "Investment Policy," "Liquidity Policy," and "Interest Rate Risk Policy" to correspond to the institution's policy structure.

References: Management Supervision, Administration, and Control Section of the Manual
Internal Routine and Controls Section of the Manual
Several applicable FDIC Statements of Policy detailed in the following items

ITEM #1

Address all policy and administrative aspects of the lending function here. In addition to those included in the listing, topics which may warrant discussion include, but are not limited to, real estate appraisal policies, documentation deficiencies (technical exceptions), policy on concentrations of credit, lending authorities and loan approval process, charge-off policy, nonaccrual policy, and environmental risk policy. Also, adherence with Part 323, Part 364, and Part 365 of the FDIC Rules and Regulations may be addressed here.

If an institution has significant out-of-territory extensions of credit, address its policies and practices with respect to out-of-area lending. Also scrutinize and address a heavy volume of loan participations.

All topics need not be discussed in detail. The length and detail of comments on individual topics should correspond to their relative materiality.

Reference: Loans Section of the Manual

ADMINISTRATION, SUPERVISION, AND CONTROL - PAGE 8 (continued)

ITEM #2

Address the internal or external loan review and grading system here. If an outside firm performs these functions, assess and report the adequacy of its performance.

Assess the adequacy of the institution's methodology for determining the level of its ALLL. (Address the financial analysis of the ALLL's adequacy on the core Earnings page.)

Reference: Loan Review Systems subsection of the Loans Section of the Manual

ITEM #3

This item has been worded broadly so as to encompass all policies (regardless of title) which govern the investment, liquidity, asset/liability, and interest rate risk functions. When a satisfactory written policy has not been adopted, address current investment, liquidity, asset/liability management and interest rate risk strategies and practices.

Reminder: Note management's use of any outside advisory services.

All policy matters relating to liquidity and asset/liability management should be addressed here (as opposed to financial analysis of the institution's funding and liquidity positions which should be addressed on the Liquidity-Asset/Liability Management page).

All policy matters relating to interest rate risk should be addressed here (as opposed to financial analysis of the institution's interest rate risk position which should be addressed on the Interest Rate Risk Exposure Assessment page).

References: Securities, Rate Sensitivity Analysis, Liquidity and Funds Management, and Funding Sources and Other Liabilities Sections of the Manual
Statement of Policy Concerning Interest Rate Futures Contracts, Forward Contracts, and Standby Contracts
Statement of Policy on Securities Activities

ITEM #4

In analyzing the strategic plan, consider the mission statement, major goals and strategies, and the reasonableness of underlying assumptions, as well as the actual planning process.

Cover existence of and assessment of the budget process here. Financial analysis of the current budget and comparison to actual results is more appropriately covered on the core Earnings page.

References: Corporate Planning subsection of the Management Supervision, Administration, and Control Section of the

Profit Plans and Budgets subsection of the Earnings Section of the Manual

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ADMINISTRATION, SUPERVISION, AND CONTROL - PAGE 8 (continued)

ITEM #5

Assess the independence, scope, and frequency of the internal audit program.

The supplemental Internal Routine and Controls page is available to document specific internal routine and control deficiencies.

References: Internal Routine and Controls Section of the Manual
Part 364 of the FDIC Rules and Regulations

ITEM #6

Comment if the institution is not in conformance with the Statement of Policy Regarding Independent External Auditing Programs of State Nonmember Banks and the Statement of Policy Providing Guidance on External Auditing Procedures for State Nonmember Banks. Strongly encourage institutions to establish audit committees consisting, if possible, entirely of outside directors.

Reminder: Do not automatically comment negatively on an otherwise satisfactory external auditing program merely because a board does not engage an independent public accountant to perform its audit of financial statements.

Make specific comments here on the most recent Management Letter accompanying audited financial statements and management's responses thereto. Criticize the institution if management's responses to the recommendations are insufficient or are not being implemented.

State if audit reports were not submitted to the Regional Office in accordance with Section 36(h) of the Federal Deposit Insurance Act. Seek management's commitment to do so in the future.

Reference: External Audit subsection of the Internal Routine and Control Section of the Manual

ITEM #7

Comment on management's response to previous regulatory conclusions and recommendations.

Comments should cover all governing laws, regulations, and policy statements. Reference substantive violations noted in specialty examinations. If significant, fully discuss the history of previous violations, particularly repeat or similar violations.

Reference: Violations of Laws and Regulations Section of the Manual

ADMINISTRATION, SUPERVISION, AND CONTROL - PAGE 8 (continued)

ITEM #8

Interpret the word "controlled" broadly for purpose of this item. Control may exist in the form of an individual or group, through stock ownership, or other means. Depending upon the situation, ownership of varying percentages of stock may result in control. In a mutual institution, effective control may exist in the form of the Board, a committee thereof, or even a dominant individual. A concentration of decision-making power and/or a lack of supervisory oversight and accountability are keys to determining control and the extent of that control.

References: Change in Bank Control - Section 303.4 of the FDIC Rules and Regulations
Statement of Policy on Changes in Control in Insured Nonmember Banks

ITEM #9

Address the institution's involvement in any unusual or nontraditional activities through affiliates. (For example, insurance, securities, and mutual fund activities).

Comment if the institution is not conforming with the Statement of Policy on Income Tax Remittance by Banks to Holding Company Affiliates or the FDIC Statement of Policy on the Applicability of the Glass-Steagall Act to Securities Activities of Insured Nonmember Banks.

The supplemental Relationships With Affiliates and Holding Companies page is available for detailing holding company financial analysis and extensions of credit to affiliated organizations. The Relationship With Bank Holding Companies workpaper is also available to assist in this analysis.

Reference: Related Organizations Section of the Manual

ITEM #10

Discuss here evidence of self-serving or other undesirable practices by management. Comment on whether business relationships between the institution and insiders exist, documentation to support arms-length transactions is maintained, or other adverse trends or situations exist.

All institutions should be encouraged to adopt codes of conduct or ethics policies which address insider transactions and conflicts of interest. All institutions should be encouraged to comply with all of the provisions in the Statement of Policy - Guidelines for Compliance with the Bank Bribery Law.

Discuss excessive compensation and/or directors' fees here.

References: Conflicts of Interest, and Indebtedness of Directors, Executive Officers and Their Interests subsections of the Management Supervision, Administration, and Control Section of the Manual
Bank Fraud and Insider Abuse Section of the Manual
Regulation O of the Federal Reserve Board Regulations
Executive Compensation provision of Part 364 of the FDIC Rules and Regulations
Part 337 of the FDIC Rules and Regulations
Statement of Policy - Guidelines for Compliance with the Bank Bribery Law

ADMINISTRATION, SUPERVISION, AND CONTROL - PAGE 8 (continued)

ITEM #11

Assess the information systems used by the institution to process primary applications, whether the system is in-house or serviced. The Information Systems Workprogram for Community Financial Institution Examinations is available to aid in evaluation of in-house systems. It has sections on microcomputers, networks, ATMs, point of sale and Automated Clearing House. The workprogram also includes questions applicable to serviced financial institutions and remote job entry (RJE).

When a review of in-house or RJE systems is conducted concurrent with the safety and soundness examination, and a separate Information Systems Examination Report is not generated, address findings of the review, including any deficiencies, recommendations, and the Uniform Interagency Composite Rating and corresponding definition here. When appropriate, carry forward comments to the Management/Administration page and the Examination Conclusions and Comments (ECC) page. A separate report should be completed for information systems rated a composite 3, 4, or 5.

Information Systems ratings will not be assigned and examination hours will be included with safety and soundness hours for financial institutions with no in-house or RJE systems. Examination hours for in-house or RJE systems will not be included with the safety and soundness hours but will be reflected whether in the separate report or on the In-house Data Processing report page (FDIC Form 6600/35A 2-94). Each region will be responsible for preparation of a (DOS) Summary of EDP Evaluation (FDIC Form 6620/30A (11-91)) for each in-house and RJE information systems examination.

References: FFIEC Information Systems Examination Handbook
Information Systems subsection of the Internal Routine and Controls Section of the Manual

ITEM #12

Cover here any other matters relating to Administration, Supervision, and Control that are not detailed above. The following items are examples of areas which may be addressed here:

Bank Secrecy Act Examination - When a Bank Secrecy Act (BSA) examination is conducted concurrent with the safety and soundness examination, discuss here findings of the BSA review, including any deficiencies and recommendations. When appropriate, carry forward comments to the Management/Administration page and the Examination Conclusions and Comments page.

Capital Leases - If lease transactions (for example, capital leases) are not treated in accordance with FASB 13, briefly describe the lease obligation.

Other Matters - Examples of other matters which may be discussed here include:

- Adequacy of fidelity insurance coverage
- Regulation F -- Interbank Liabilities
- Wire Transfer -- Daylight Overdraft Caps (Refer to Wire Transfer Questionnaire)
- Call Report errors
- Irregular or infrequent director attendance

Note: Use descriptive subheadings to title comments.

VIOLATIONS OF LAWS AND REGULATIONS - PAGE 8

GENERAL

Include this schedule when apparent violations or contraventions of FDIC Statements of Policy are cited.

Comments on the Violations of Laws and Regulations page may, but need not automatically, be carried forward in summary form to the Examination Conclusions and Comments (ECC) page. The materiality of the violation and the examiner's intentions regarding civil money penalties and/or enforcement actions will determine whether ECC page comments are appropriate.

Violations of laws and regulations and contraventions of FDIC Statements of Policy which are discussed in detail on the Administration, Supervision, and Control page should only be briefly discussed here.

Because of possible administrative or judicial review, all violations are considered "apparent" violations.

Generally, list violations in order of importance, with consideration given to the substance of the violation and its severity.

FORMAT OF VIOLATION WRITE-UPS

- Headings - A descriptive heading should precede each scheduled violation or group of violations.
- Citation of Violation - When scheduling violations of the FDIC's Rules and Regulations, it is generally necessary to cite the specific section or subsection of the regulation deemed to have been violated (for example, Section 328.2 or Section 329.1(e)). Also give the specific reasons for the violations. Conversely, any reference to a general regulation dealing with a particular subject is cited by part number (for example, Part 329).
- Description of Violation - In most cases, a summary or paraphrasing of the applicable law or regulation is acceptable. Comments should be as precise as circumstances warrant. State the apparent cause(s) of the violation. Detailed descriptions and extensive remarks on violations which involve certain assets, such as adversely classified loans, may be unnecessary when other schedules are referenced. Reference the appropriate report page if any asset illegally held is subject to adverse classification or Special Mention.
- Management Comments and Corrective Action - Include management's comments or commitments, or lack thereof, to corrective action planned for each type of violation. List violations corrected during the examination; note corrective actions taken. Clearly indicate any promise of restitution by offending individuals.
- Director Approval - To reflect director responsibility and possible liability, it is essential to include the names of directors who approved assets held in nonconformance with applicable state and federal laws and regulations or similar apparently illegal transactions. Note the date such approval was granted. Also include the names of dissenting directors. Follow this procedure even if approval consisted merely of ratifying a group of loans identified only by numbers. Director approval is particularly important when violations may result in the imposition of civil money penalties. *Note: Director approval information is not necessary in all violation write-ups.*
- Summary of Technical Violations - When several technical violations exist, examiners may summarize the individual violations, listing names or other identifying characteristics of each violation. Provide details to management. Also retain them in the examination workpapers.

Reference: Violations of Laws and Regulations Section of the Manual

VIOLATIONS OF LAWS AND REGULATIONS - PAGE 8 (continued)

LEGAL LENDING LIMIT VIOLATIONS

Generally, courts have held that only the loan(s) that cause a borrower's debt to exceed the legal limit is illegal. Therefore, consider only the advance(s) that cause the excess over the legal limit a violation. However, the state law or practice regarding this matter should prevail.

UNCORRECTABLE vs. REPEAT VIOLATIONS

Refrain from continuing to cite violations that "cannot be corrected." For example, violations of the prior approval requirements of Regulation O are theoretically not correctable and should not be repeated. However, do cite "repeat" violations (those that could have been corrected but were not).

CIVIL MONEY PENALTIES

Except in the most serious situations, do not refer to the FDIC's power to impose Civil Money Penalties (CMPs) or to the maximum dollar amount of CMPs that may be imposed. If repetition or noncorrection of the violations is noted at subsequent examinations, examiners may comment that violations are potentially subject to CMPs, even though no such present recommendation is contemplated.

Note: When CMPs are recommended, home mailing addresses of all directors and any other individuals involved in the violation should be included in the Confidential-Supervisory Section.

CONTRAVENTIONS OF FDIC STATEMENTS OF POLICY

List contraventions of FDIC Statements of Policy after cited violations under the subheading "Contraventions of FDIC Statements of Policy."

VIOLATIONS OF PART 325 vs. CONTRAVENTIONS OF FDIC STATEMENTS OF POLICY

- Violations of the Part 325 leverage standard are violations of a regulation.
- Failure to meet the Risk-Based Capital guidelines is not a violation of Part 325 but is a contravention of an FDIC Statement of Policy.